FINANCIAL
STATEMENTS
2008

Quebec's leader in oil and gas exploration

Pétrolia

Auditors' report to the shareholders of Pétrolia Inc.

We have audited the balance sheets of Pétrolia Inc. as at September 30, 2008 and 2007, and the statements of income, shareholders' equity, deferred exploration expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examinating, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mallette

Mallette
LLP
Chartered Accountants
Rimouski, November 25, 2008

Balance sheet

As at September 30	2008 $	2007 $
ASSETS		
Current assets		
Cash and equivalents	11,275,057	48,473
Short-term investments		3,000,000
Receivables (Note 6)	3,027,612	261,683
Prepaid expenses	72,344	117,763
	14,375,013	3,427,919
Investments (Note 7)	1,040,000	565,000
Fixed assets (Note 8)	194,563	67,147
Oil and gas properties (Note 9)	2,090,152	1,610,714
Deferred exploration expenses (Note 10)	9,131,887	7,066,177
	26,831,615	12,736,957
LIABILITIES		
Current liabilities		
Payables and accrued expenses	2,963,760	315,976
Future taxes (Note 13)	291,187	41,034
Current portion of long-term debt (Note 11)	–	11,694
	3,254,947	368,704
Long-term debt (Note 11)	–	20,150
Future taxes (Note 13)	1,382,559	1,566,097
Deposit on shares to be issued	–	3,000,000
	4,637,506	4,954,951
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	21,674,783	7,728,400
Contribution surplus – Stock options	1,877,170	636,968
Contribution surplus – Expired stock options	195,946	195,901
Deficit	(1,553,790)	(779,263)
	22,194,109	7,782,006
	26,831,615	12,736,957

Commitments and contingencies (Notes 14 and 15)

On behalf of the Board

André Proulx, Director

Clément Duchesne, Director

Statement of income

Fiscal year ended September 30	2008 $	2007 $
REVENUE		
Project income	26,736	–
Interest income	224,714	52,924
Gain on disposal of rolling stock	3,724	–
	255,174	52,924
GENERAL AND ADMINISTRATIVE EXPENSES		
Stock-based compensation (Note 12)	668,775	148,770
Salaries and fringe benefits	327,067	261,437
Insurance	42,114	42,635
Travel	46,860	26,364
Governmental fees	–	11,666
Maintenance and office supplies	4,066	18,622
Information for shareholders	59,772	20,665
Interest on loans	1,898	951
Promotion and entertainment	65,579	59,347
Professional fees	33,994	25,190
Telecommunications	9,806	20,204
Depreciation of fixed assets	33,513	19,637
Costs attributable to exploration expenses	(65,160)	(43,033)
Others	30,883	54,854
	1,259,167	667,309
LOSS BEFORE OTHER ITEM AND INCOME TAXES	(1,003,993)	(614,385)
OTHER ITEM		
Unrealized gain on financial assets held for trading	520,000	220,000
LOSS BEFORE INCOME TAXES	(483,993)	(394,385)
Future income taxes (Note 13)	290,534	(106,240)
NET LOSS	(774,527)	(288,145)
BASIC AND DILUTED NET LOSS PER SHARE	(0.022)	(0.010)

Statement of shareholders' equity

	Capital stock		Contributed surplus			
			Stock options	Expired stock options	Deficit	Total
	Shares	$	$	$	$	$
Balance as at September 30, 2006	28,548,649	7,379,827	450,057	159,596	(491,118)	7,498,362
Issued during the year						
Warrants exercised	104,500	61,675	–	–	–	61,675
Broker warrants exercised	555,103	292,223	(81,284)	–	–	210,939
Share issuance costs	–	(5,325)	–	–	–	(5,325)
Other activities						
Stock-based compensation	–	–	304,500	–	–	304,500
Expired stock options	–	–	(27,000)	27,000	–	–
Expired broker warrants	–	–	(9,305)	9,305	–	–
Net loss	–	–	–	–	(288,145)	(288,145)
Balance as at September 30, 2007	29,208,252	7,728,400	636,968	195,901	(779,263)	7,782,006
Issued during the period						
Cash	11,416,665	14,749,999	–	–	–	14,749,999
Broker warrants exercised	201,802	106,716	(30,031)	–	–	76,685
Stock options exercised	87,500	56,692	(21,692)	–	–	35,000
Share issuance costs	–	(967,024)	–	–	–	(967,024)
Other activities						
Stock-based compensation	–	–	1,291,970	–	–	1,291,970
Expired broker warrants	–	–	(45)	45	–	–
Net loss	–	–	–	–	(774,527)	(774,527)
Balance as at September 30, 2008	40,914,219	21,674,783	1,877,170	195,946	(1,553,790)	22,194,109

Statement of deferred exploration expenses

Fiscal year ended September 30

	2008	2007
	$	$
EXPLORATION EXPENSES		
Analyses	7,582	4,462
Drilling	162,211	111,948
Geology	1,008,371	310,364
Geophysical surveys	4,239,167	1,001,874
General exploration expenses	76,724	43,033
Stock-based compensation	228,225	155,730
	5,722,280	1,627,411
DEDUCTIONS		
Exploration subsidies	942,351	132,797
Partner contributions	2,714,219	–
	3,656,570	132,797
NET INCREASE IN EXPLORATION EXPENSES FOR THE FISCAL YEAR	2,065,710	1,494,614
BALANCE, BEGINNING OF YEAR	7,066,177	5,571,563
BALANCE, END OF YEAR	9,131,887	7,066,177

Statement of cash flows

Fiscal year ended September 30	2008 $	2007 $
OPERATING ACTIVITIES		
Net loss	(774,527)	(288,145)
Items not affecting cash		
Stock-based compensation	668,775	148,770
Depreciation of fixed assets	33,513	19,637
Gain on disposal of rolling stock	(3,724)	–
Future income taxes	(290,534)	(106,240)
Unrealized gain on financial assets held for trading	(520,000)	(220,000)
	(305,429)	(445,978)
Net change in non-cash operating working capital items	(156,689)	49,293
	(462,118)	(396,685)
FINANCING ACTIVITIES		
Deposit on shares to be issued	–	3,000,000
Acquisition of financing	37,889	–
Capital stock issuance	14,861,684	272,614
Share issuance costs	(795,973)	(5,325)
Repayment of long-term debt	(69,733)	(11,406)
	14,033,867	3,255,883
INVESTING ACTIVITIES		
Acquisition of investments	–	(3,045,000)
Disposal of investments	45,000	–
Acquisition of fixed assets	(167,060)	(28,691)
Disposal of rolling stock	4,906	2,500
Acquisition of oil and gas properties	(479,438)	(89,081)
Increase in deferred exploration expenses net of deductions	(1,748,573)	(1,533,857)
	(2,345,165)	(4,694,129)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	11,226,584	(1,834,931)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	48,473	1,883,404
CASH AND EQUIVALENTS, END OF YEAR	11,275,057	48,473
CASH AND EQUIVALENTS ARE AS FOLLOWS:		
Cash	1,975,357	48,473
Money market fund	9,299,700	–
	11,275,057	48,473

Additional cash flow information: Note 17

Notes to financial statements
September 30, 2008

1 INSTRUMENT OF INCORPORATION AND NATURE OF ACTIVITIES

The Company, incorporated under part IA of the Québec Companies Act, is an oil and gas exploration company. Its stock has been listed on the TSX Venture Exchange since February 16, 2005, under the symbol PEA.

The oil and gas properties held by the Company are currently in the exploration stage. The Company's long-term profitability is related in part to the costs and success of the exploration and subsequent development programs. The Company has not yet determined whether its properties hold economically viable reserves.

2 FINANCIAL STATEMENT PRESENTATION

These financial statements were prepared by the Company in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires Management to adopt estimates and assumptions that affect any recorded asset and liability amounts as at the date of the financial statements as well as the recorded income and expense amounts during the reporting periods. Actual results could differ from these estimates. All amounts are expressed in Canadian dollars.

Certain comparative figures have been reclassified to conform to the presentation adopted during fiscal year 2008.

3 SIGNIFICANT ACCOUNTING POLICIES

New accounting standards

In October 2007, the company adopted the new recommendations of Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which replace Section 3861 "Financial Instruments – Disclosure and Presentation" of the CICA Handbook. These two new sections put more emphasis on the information to be disclosed regarding the nature and magnitude of the risks involved with financial instruments and how the entity manages these risks. Additional information is presented in Note 4 "Financial Instrument Disclosures".

In October 2007, the Company also adopted the new recommendations of Section 1535 "Capital Disclosures". The new section establishes standards for disclosing information about a Company's capital and how it is managed. The additional information required by the adoption of this standard is presented in Note 5 "Information Regarding Capital".

Recording of income

Investment income is recorded when it is earned. Project income is recorded when the exploration work is performed.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are converted at the prevailing exchange rate as at the balance sheet date. Income and expenses denominated in foreign currencies are recorded at the prevailing exchange rate as at the transaction date. Foreign exchange gains or losses are included in the Company's net earnings.

Fixed assets

Fixed assets are recorded at cost. Depreciation is based on their estimated useful lives using the following methods and annual rates:

	Methods	Rate
Leasehold improvements	Straight-line	3 years
Office equipment	Declining balance	20%
Computer equipment and rolling stock	Declining balance	30%

Oil and gas properties and deferred exploration expenses

The Company follows the full-cost accounting method, under which costs associated with acquisition, exploration, and property development activities, net of government grants, are recorded by property until the commercial activities begin. These costs include geological and geophysical expenses, the cost of drilling producing and non-producing wells, the portion of overhead expenses directly attributable to these activities, and the estimated installation abandonment expenses. If economically profitable oil and gas reserves are developed, the capitalized costs of the properties in question are transferred to property, plant, and equipment and amortized using units of production for the fiscal year based on probable and demonstrated oil and gas reserves. If it is determined that capitalized acquisition, exploration, and development costs are not recoverable over the estimated useful life of the property, or if the project is abandoned, the project is written down to its net realizable value.

The recovery of amounts recorded for oil and gas properties and related deferred exploration costs depends on the discovery of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete development and future profitable production, or the proceeds from disposal of such properties. Amounts recorded for oil and gas properties and deferred exploration costs do not necessarily represent the present or future value. Lastly, the Company's activities are subject to governmental regulation.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Site restoration costs

A provision for restoration costs, net of any expected recovery, is recorded if such costs are reasonably determinable. This provision is calculated based on estimated costs according to the expected method and the extent of environmental remedial work, in accordance with legislative requirements, industry practices, current technology, and the potential future use of the site. In addition, a provision is established once Management approves the sale or closure of an oil or gas property and is recorded at fair value in consideration of the increased cost of the assets in question.

Joint venture activities

The Company conducts certain oil and gas exploration activities on a joint venture basis. The present financial statements take into account only the Company's proportionate interest in such activities.

Government subsidies and partner contributions

Exploration tax credits, subsidies related to exploration expenses, and partner contributions are accounted for and applied against exploration expenses. Subsidies related to operations are recorded as revenues in the statement of income.

In the event of any variances between the amounts of government subsidies claimed by the Company and those granted by the tax authorities, the resulting gain or loss will be recorded in the fiscal year in which these variances are recognized.

Income taxes

The Company uses the tax liability method of accounting for income taxes. Under this method, future income tax debits and credits are determined according to differences between the book value and tax value of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws as of the date of the financial statements for the fiscal years in which the temporary differences are expected to be recovered.

In accordance with the tax laws, deductions for resource expenses related to exploration and development activities and financed by flow-through shares have been forfeited in favour of the investors. Under the tax liability method used to account for income taxes, future income taxes related to differences arising at the time of the forfeiture have been accounted for with a corresponding charge to share issuance costs.

Basic and diluted net loss per share

Net loss per share is calculated according to the weighted average of outstanding shares during the reporting period. The diluted net loss per share is similar to the net loss per share, since the exercising of warrants and stock options would have the effect of reducing the loss per share.

Stock-based compensation

The Company accounts for the allocation of stock options granted under the stock option plan and also accounts for the allocation of broker warrants as part of certain funding on a fair value basis. Stock options granted to salaried and non-salaried persons and broker warrants are accounted for on the basis of their fair value according to the Black-Scholes option pricing model.

When options and broker warrants are granted, the compensation expenses are applied to the activity in question and offset in contributed surplus.

Any consideration paid by the participants when options and broker warrants are exercised, as well as the contributed surplus created when options and broker warrants are allocated, are credited to capital stock.

Capital stock

Capital stock issued as non-monetary consideration is accounted for at the fair market value of the shares to be issued by the Company and depends on the stock price on the date on which the stock issuance agreement was entered into.

Cash and equivalents

The Company's cash and equivalents include cash and short-term investments that are convertible into cash at any time.

Future accounting changes

The CICA released the following new sections, which will apply to the Company's interim and annual financial statements beginning on October 1, 2008.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

General standards of financial statement presentation

In June 2007, the CICA modified Section 1400 "General Standards of Financial Statement Presentation" in order to require Management to assess the Company's ability to continue its operations for, but not limited to, a minimum period of twelve months from the closing date of the fiscal period. These new requirements apply to fiscal years that started on or after January 1, 2008. Accordingly, the Company will apply them beginning October 1, 2008. The new requirements cover only the information to be disclosed and will have no impact on the Company's financial results.

Goodwill and intangible assets

In February 2008, the CICA issued the new Section 3064, "Goodwill and Intangible Assets", which supersedes Section 3062, "Goodwill and Other Intangible Assets". The release of this new section led to the elimination of Section 3450, "Research and Development Costs", as well as the resulting modifications to certain recommendations of the CICA Handbook. The new section establishes standards for for-profit companies in the recognition, measurement, presentation, and disclosure of goodwill and intangible assets. This new section applies to fiscal years begun on or after October 1, 2008. Accordingly, the Company will apply them from this date. Management currently assesses the impact of applying this new section on the financial statements but feels that it is unlikely to have any impact on them.

International financial reporting standards

The CICA Accounting Standards Board (AcSB) has adopted a strategic plan to converge with the International Financial Reporting Standards (IFRS) for companies having accountability obligations. As the AcSB confirmed on February 13, 2008, the conversion requires companies that have accountability obligations to adopt the IFRS fully in 2011. The transition to the IFRS will apply to interim and financial statements for fiscal years begun on or after January 1, 2011. The Company will switch to the new standards according to the schedules established by these new rules and will closely monitor all changes resulting from this convergence. To date, the Company has not evaluated the impact of these new standards.

4 FINANCIAL INSTRUMENT DISCLOSURES

Fair value

The Company holds the following financial instruments:

i) Instruments held for trading designated as held for trading

Cash and equivalents as well as investments are recorded at fair value at each balance sheet reporting date. Any variation in the fair value is presented in net earnings in the period during which these variations occur. The fair value of equity instruments is based on the market price for the investments in question.

ii) Loans and receivables

The book value of receivables is close to their fair value because of their short-term maturity. After their initial fair value valuation, they are valued at the amortized cost using the effective interest method, which generally corresponds to coSt.

iii) Other financial liabilities

The book value of payables and accrued expenses is close to their fair value because of their short-term maturity. After their initial fair value valuation, they are valued at the amortized cost using the effective interest method, which generally corresponds to coSt.

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of the risks as at September 30, 2008, the date of the balance sheet.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and equivalents and accounts receivable. The Company's cash and equivalents are held with or issued by first-class financial institutions. Receivables mostly represent sums due from the federal and provincial government and partners. Therefore, Management considers the risk of non-performance on these instruments to be very minimal.

Liquidity risk

Liquidity risks are the risks that the Company would be unable to cope with its financial obligations at the required times or could only do so at excessive coSt. The Company finances its growth through the issuance of shares. One of Management's main financial objectives is to maintain an optimal level of liquidities by actively managing the exploration work to be performed. Considering the liquid resources at the Company's disposal, Management feels that the liquidity risks to which the Company is exposed are low.

Market risk

Market risk is the risk that the fair value of the investment held for trading would fluctuate due to market price variations.

5 INFORMATION REGARDING CAPITAL

In its capital management operations, the Company's objectives are to:

- Maintain financial flexibility in order to preserve its capacity to meet its financial commitments, including its potential obligations resulting from additional acquisitions
- Maintain a capital structure allowing the Company to encourage the financing of its growth strategy
- Optimize the use of its capital in order to offer its shareholders a good return on their investment

The Company defines its capital as follows:

- Equity capital
- Cash and equivalents

The Company's financial strategy is developed and adapted based on market conditions in order to maintain a flexible capital structure in compliance with the aforementioned objectives and to respond to the characteristics of the risks linked to the underlying assets. In order to maintain its capital structure, the Company, being in its early stages, is required to issue new shares.

The Company's capital management objectives, policies, and procedures have not changed since October 1, 2007.

The Company is currently meeting all of its financial commitments.

6 RECEIVABLES

	2008	2007
	$	$
Partners	1,687,499	82,801
Consumer tax credits	258,528	28,952
Tax credits receivable	942,351	134,207
Interest receivable	–	13,041
Others	139,234	2,682
	3,027,612	261,683

Tax credits pertain to applications that have not yet been examined by the tax authorities.

7 INVESTMENTS

	2008	2007
	$	$
Gastem Inc. 1,000,000 common shares (cost: $100,000 in 2008 and 2007) (Note 18)	1,040,000	520,000
Investment certificate, 3.6%, matured in March 2008	–	45,000
	1,040,000	565,000

8 FIXED ASSETS

	2008 $			2007 $
	Cost	Accumulated depreciation	Net value	Net value
Leasehold improvements	18,387	5,205	13,182	10,752
Computer and office equipment	73,172	20,080	53,092	27,287
Rolling stock	170,302	42,013	128,289	29,108
	261,861	67,298	194,563	67,147

As part of its regular fixed asset replacement and improvement plan, the Company disposed of rolling stock.

9 OIL AND GAS PROPERTIES

	2008 $	2007 $
Quebec		
Anticosti	205,793	–
Edgar	15,003	10,002
Gaspésia	257,770	188,660
Gaspé and Gastonguay	1,573,529	1,386,107
Marcel-Tremblay	6,633	–
Others	–	4,746
New Brunswick		
Dalhousie	31,424	21,199
	2,090,152	1,610,714

Gaspé and Gastonguay properties

On May 6, 2008, the Company signed a comprehensive agreement that amended a prior agreement with Junex pertaining to the Gaspé and Gastonguay properties. Under this agreement, Pétrolia acquired a 100% interest over an area of 6,043 km^2 on these properties, subject to royalties varying from 0.5% to 2.5% of the future production of hydrocarbons. Also, under this agreement, Pétrolia and Junex agreed to become 50/50 partners in a block of permits covering an approximate area of 291 km^2, with Junex acting as operator. On this same date, a second agreement defined a development area of 9 km^2 around the Pétrolia Haldimand No. 1 well, in which Pétrolia holds 45% interest, Junex holds 45%, and Gastem holds 10%. Some permits for these properties are subject to royalties of 5%.

Bourque project

During the fiscal year, the Company signed a $20M farmout agreement with the oil company Pilatus, which is initiated by the Company. Over the next five years, this company will be able to earn a 70% interest in the Bourque project's four permits by investing $20M into exploration and development work under the following terms:

- Over the first 18 months, the oil company had to carry out a seismic profile of a minimum amount of $2.5M to secure its right to participate in this agreement. This term was fulfilled as at September 30, 2008.
- During the first three years, it must invest a cumulative amount of $8M into exploration work in order to earn a 24% interest in the project.
- During the first five years, by investing a cumulative amount of $16M, it will be able to increase its interest to 48% and, by investing an additional $4M for a total of $20M, further increase its interest to 70%.

9 OIL AND GAS PROPERTIES (continued)

Anticosti property

During the fiscal year, Company acquired all rights belonging to Hydro-Québec on Anticosti Island. In consideration, a preferred royalty on future oil production will be paid to Hydro-Québec. Under this agreement, Pétrolia shares an interest with Corridor Resources Inc. varying between 25% and 50% in 35 exploration permits for the Island and acts as operator for most of them.

Saint-Simon property

The Company holds a 10% interest in the Saint-Simon well and the geological structure.

Under the commitments described in Note 14, the balance of the work to be performed is broken down as follows:

Properties	2009	2010	2011	2012
	$	$	$	$
Edgar	–	55,136	125,025	–
Marcel-Tremblay	35,770	49,748	66,330	82,912
Dalhousie	906,684	–	–	–

10 DEFERRED EXPLORATION EXPENSES

	September 30 2008 $	Additions $	September 30 2007 $
Quebec			
Anticosti	1,096,296	1,096,296	–
Edgar	230,883	25,418	205,465
Gaspésia	3,119,249	664,147	2,455,102
Gaspé and Gastonguay	8,267,463	3,845,357	4,422,106
Marcel-Tremblay	23,009	23,009	–
Saint-Simon	102,707	–	102,707
Others	–	(26,286)	26,286
New Brunswick			
Dalhousie	114,118	94,339	19,779
	12,953,725	5,722,280	7,231,445
Less			
Exploration subsidies and partner contributions			
Anticosti	356,084	356,084	–
Edgar	19,754	8,242	11,512
Gaspésia	262,075	208,477	53,598
Gaspé and Gastonguay	3,169,477	3,085,441	84,036
Marcel-Tremblay	7,526	7,526	–
Dalhousie	6,922	–	6,922
Others	–	(9,200)	9,200
	3,821,838	3,656,570	165,268
	9,131,887	2,065,710	7,066,177

10 DEFERRED EXPLORATION EXPENSES (continued)

	September 30 2007 $	Additions $	September 30 2006 $
Quebec			
Edgar	205,465	203,269	2,196
Gaspésia	2,455,102	985,444	1,469,658
Gaspé and Gastonguay	4,422,106	392,490	4,029,616
Saint-Simon	102,707	143	102,564
Others	26,286	26,286	
New Brunswick			
Dalhousie	19,779	19,779	–
	7,231,445	1,627,411	5,604,034
Less			
Exploration subsidies and partner contributions			
Edgar	11,512	11,512	–
Gaspésia	53,598	21,127	32,471
Gaspé and Gastonguay	84,036	84,036	–
Dalhousie	6,922	6,922	–
Others	9,200	9,200	–
	165,268	132,797	32,471
	7,066,177	1,494,614	5,571,563

11 LONG-TERM DEBT

	2008 $	2007 $
Loan, guaranteed by a rolling stock, repaid early	–	31,844
Portion failing due during the next fiscal year	–	11,694
	–	20,150

12 CAPITAL STOCK

Authorized

Unlimited number of common participating, voting and no par value shares.

Issued

40,914,219 (2007 – 29,208,252) common shares.

Escrowed shares

As at September 30, 2008, no shares have been escrowed, (2007 – 1,409,658).

Stock-based compensation

The Company has a Stock Option plan under which it can grant options up to 10% of its issued and outstanding shares to its directors, officers, key employees, and suppliers on a continuous basis. The exercise price of each option corresponds to the market's price or discount price on the day preceding the allocation date. The maximum term of granted options may not exceed five years. The maximum number of shares that can be granted to any individual beneficiary is 5% of the total number of issued and outstanding shares as at the grant date minus the number of shares already reserved for issuance to that beneficiary for any other stock option.

During the fiscal year, the Company granted stock options. The fair value of each allocated option is calculated according to the Black-Scholes option pricing model, using the following assumptions:

	Stock options					Broker warrants
	2008			2007	2006	2008
	July	**March**	**February**	**June**	**October**	**June**
Risk-free interest rate	4.75%	5.75%	5.75%	6%	6%	4.75%
Expected volatility	90%	80%	80%	85%	85%	90%
Weighted expected life (year)	5	5	5	5	2	1.5
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

Accordingly, the stock-based compensation cost was recorded as follows:

	2008 $	2007 $
Statement of income	668,775	148,770
Deferred exploration expenses	228,225	155,730
Share issuance expenses	394,970	–
Total	1,291,970	304,500

12 CAPITAL STOCK (continued)

The following table summarizes the outstanding stock options:

	2008 Number of options outstanding	2008 Weighted average exercise price $	2007 Number of options outstanding	2007 Weighted average exercise price $
Outstanding and exercisable, beginning of year	2,645,000	0.41	1,670,000	0.43
Granted	1,350,000	0.66	1,125,000	0.40
Exercised	(87,500)	0.40		
Expired	–	–	(150,000)	0.58
Outstanding and exercisable, end of year	3,907,500	0.58	2,645,000	0.41

Weighted average of fair values as at the allocation date:

	2008 $	2007 $
Stock options	0.66	0.40
Broker warrants	0.93	–

As at September 30, 2008, the outstanding options under the Plan amount to the following:

Weighted average exercise price $	Number	Weighted average remaining years	Expiration date
0.60	25,000	0.1	October 10, 2008
0.40	270,000	1.5	March 15, 2010
0.40	1,075,000	2.3	February 3, 2011
0.58	150,000	2.6	May 10, 2011
0.40	1,037,500	3.8	June 21, 2012
0.60	600,000	4.3	February 12, 2013
0.60	150,000	4.4	March 3, 2013
1.25	600,000	4.8	July 7, 2013

Warrants

As at September 30, 2008, the outstanding warrants are as follows:

Exercise price $	Number	Expiration date
1.00	1,750,000	April 26, 2009
1.00	3,000,000	July 10, 2009
1.50	3,756,665	December 6, 2009

13 FUTURE INCOME TAXES

The Company's effective tax rate differs from the combined statutory rate (federal and provincial). This difference is attributable to the following items:

	2008 $	2007 $
Loss before income taxes	(483,993)	(394,385)
Income tax at combined rate: 30.9%	(149,554)	(121,865)
Stock-based compensation	206,651	45,970
Revaluation of future tax debits and credits	300,877	(5,213)
Non-deductible expenses and others	12,900	8,858
Unrealized capital gain	(80,340)	(33,990)
	290,534	(106,240)

Future income tax debits and credits result from differences between the tax value and the book value of the following items:

	2008 $	2007 $
Future income tax debits:		
Deferred losses	(636,199)	(455,869)
Share issuance costs	(256,868)	(107,461)
Others	(12,542)	(6,366)
	(905,609)	(569,696)
Future income tax credits:		
Investments	145,230	64,890
Properties	30,871	30,871
Deferred exploration expenses	2,403,254	2,081,066
	2,579,355	2,176,827
Net future income tax credits recorded	1,673,746	1,607,131
Short-term future tax credit	291,187	41,034
Long-term net future tax credit	1,382,559	1,566,097
	1,673,746	1,607,131

As at September 30, 2008, the accumulated losses for future tax purposes, for which the tax benefits were recorded, amounted to $2,239,884 at the federal level and $1,769,925 at the provincial level. The Company may use the tax benefit resulting from the carry-over of these losses before:

	Federal $	Provincial $
2009	528	528
2010	3,180	3,180
2014	8,618	6,776
2015	351,319	287,294
2026	574,450	440,410
2027	648,473	514,153
2028	653,316	517,584

14 COMMITMENTS

Pursuant to the rules governing exploration permits granted by the Quebec Ministry of Natural Resources, the Company has committed to pay fees in the amount of $161,127 until 2012. The minimum payments due over the upcoming fiscal years are as follows:

2009	2010	2011	2012
$70,588	$78,905	$8,318	$3,316

Moreover, the Company must conduct annual statutory work on the lands covered by its permits. The minimum costs vary according to the age of the permits. The costs correspond to $0.50/hectare for the first year, increasing $0.50/hectare each subsequent year up to the fifth year, at which time the fee will be set to $2.50/hectare per year. The minimum work to be performed totals $942,454 in 2009, $104,884 in 2010, $191,355 in 2011 and $82,912 in 2012.

The Company has entered into leases until 2012 to rent offices from two companies, including a company in which one of its directors holds a minority intereSt. The residual amount of these leases, excluding escalation clauses, is $273,022.

The minimum payments required over the upcoming fiscal years are as follows:

2009	2010	2011	2012
$100,021	$100,021	$69,480	$3,500

15 CONTINGENCIES

In the past, the Company partially funded itself through the issuance of flow-through shares. The last issuance occurred in 2005. The Company has therefore fulfilled its commitments related to exploration work to be performed. However, although the Company has taken all necessary measures for this purpose, there is no guarantee that all of the funds spent by the Company for these actions will be declared acceptable by the tax authorities under an audit on their part. The rejection of certain expenses by the tax authorities could have negative tax consequences for the investors.

During the fiscal year, Revenue Quebec assessed capital taxes of $84,204 on the Company for fiscal years 2006 and 2007. Management disputed this assessment by issuing a notice of objection. Although Management believes that there is merit to its opposition, it is currently impossible to predict the outcome of this dispute with certainty. Accordingly, no provisions have been recorded for fiscal years 2006 and 2007 or the current fiscal year.

16 RELATED-PARTY TRANSACTIONS

Transactions were made with two companies whose main director holding a minority interest is also a director of Pétrolia inc.:

	2008 $	2007 $
Salaries and fringe benefits	(16,445)	–
Travel	(1,069)	–
Maintenance and office supplies	(25,319)	–
Deferred exploration expenses	676,529	340,246
Promotion and entertainment	(1,045)	–
Telecommunications	(12,970)	–
Others	(76,408)	6,413

The account receivable from these companies as at September 30, 2008, was $54,696 (2007 balance due – $68,075).

Transactions were made with a director who works as a consultant for the Company:

	2008 $	2007 $
Deferred exploration expenses	66,314	62,969

The balance due to this director as at September 30, 2008, was $18,492 (2007 – $5,769).

The Company made the following transactions with a company whose chief executive officer is the same for both companies:

	2008 $	2007 $
Office supplies	3,600	4,680
Salaries and fringe benefits	245,156	191,823
Telecommunications	6,505	4,082

The balance due to this company as at September 30, 2008, was $63,039 (2007 – $55,159).

These transactions occurred in the normal course of business and are recorded at the exchange value, which is the amount of the consideration established and accepted by the related parties.

17 ADDITIONAL CASH FLOW INFORMATION

Items not affecting cash and equivalents related to financing and investing activities are as follows:

	2008 $	2007 $
Accounts receivable for deferred exploration expenses	(2,137,041)	(132,797)
Stock-based compensation related to share issuance costs	394,970	–
Stock-based compensation related to deferred exploration expenses	228,225	155,730
Accounts payable and accrued expenses related to deferred exploration expenses	2,258,513	(62,176)
Prepaid expenses for deferred exploration expenses	(37,509)	–
Future taxes for issuance cost	223,919	–

18 EVENT SUBSEQUENT TO THE BALANCE SHEET

On November 25, 2008, the equity investment closed at $0.62 per share. The value of the investment, which was $1,040,000 as at September 30, 2008, now totals $620,000.